Against the Grain

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Cases of Note -- Copyright: First Sale Doctrine -- Mountains From Molehills

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LEGAL ISSUES

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Cases of Note — Copyright

First Sale Doctrine — Mountains From Molehills

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Omega S.A. v. Costco Wholesale Corporation, UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT, 541 F.3d 982; 2008 LEXIS 18800 (2008).

Every now and again we need a new tempest in a teapot for lawyers to yap about and — dare I say — brew anxiety among librarians. Remember the ***Texaco*** case, that classic much-ado-about-nothing? Everyone threw up their hands in horror and exclaimed "Do you mean I really have to buy a second copy of a journal and can't just photocopy the library's?"

My response was, legally yes, but you'll just keep on photocopying and sticking it in your file drawer and no one will know or do anything about it. And now you just download it at home via your own printer. And the most common method of publisher pricing now is by FTE users.

And then there was ***Tasini*** that was supposed to cut a swath out of the information mass as devastating as the predicted calamity Y2K. Somehow, no one seems to notice anything missing.

The **Costco** case is not about libraries, but since it addresses the **First Sale Doctrine**, it is being much discussed in Library Land.

Omega is the famous Swiss watchmaker which sells worldwide through authorized distributors and retailers. Each watch is engraved on the back with a U.S.-copyrighted "Omega Globe Design." **Costco**, the famous big-box low-cost retailer got **Omega** watches from the "gray market." These are not counterfeit watches, but the "genuine product protected by trademark or copyright. They are imported into the U.S. by third parties, thereby bypassing the authorized distribution channels." ***Parfums Givenchy, Inc. v. Drug Emporium, Inc.,*** 38 F.3d 477, 481 n.6 (9th Cir. 1994). So how can anyone make a profit on this? Apparently, the gray market arbitrages international discrepancies in manufacturers' pricing systems.

Don't ask me to explain that.

Omega did sell the watches in Europe, but did not authorize **Costco** as a distributor. **Omega** cried foul and sued for copyright infringement under 17 U.S.C. §§ 106(3) and 602(a) and asked for summary judgement. The district court held for **Costco** and gave them a whacking great $373,003.80 in attorney's fees.

I love the small change.

The Ninth Circuit reviewed de novo. Three pertinent parts of the ***Copyright Act*** were at issue. **Section 602(a)** direly reads: "Importation into the US without the authority of the owner of copyright under this title, of copies … of a work that have been acquired outside the U.S. is an infringement of the exclusive right to distribute copies … under section 106, actionable under section 501."

Section 106(3) sternly warns: "[T]he owner of copyright … has the exclusive rights … to distribute copies … of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending."

Section 109(a) soothingly opines: "Notwithstanding the provisions of section 106(3), the owner of a particular copy … lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy…"

The last one is the famous **"first sale doctrine"** that permits libraries to lend books. "Once [a] copyright owner consents to the sale of particular copies of his work, he may not thereafter exercise the distribution right with respect to those copies." 2-8 **Melville B. Nimmer & David Nimmer**, ***Nimmer on Copyright*** § 8.12(B)(1), at 8-156 (1978 ed.).

*It must have been quite nice growing up as young **Nimmer**, knowing you always had a law professorship sinecure waiting for you when you became Dad's co-author.*

Omega said while 109(a) seems to limit 602(a), it only applies to domestically made copies of U.S.-copyrighted works as the Ninth Circuit has held thrice. ***BMG Music v. Perez,*** 952 F.2d 318 (9th Cir. 1991); ***Parfums Givenchy, Inc. v. Drug Emporium, Inc.,*** 38 F.3d 477 (9th Cir. 1994); ***Denbicare USA Inc. v. Toys "R" Us, Inc.,*** 84 F.3d 1143(9th Cir. 1996).

Costco argued that's true, but all this was turned around by the **U.S. Supreme Court** in ***Quality King Distribs., Inc. v. L'anza Res. Int'l, Inc.,*** 523 U.S. 135 (1998).

The Ninth Circuit Digs In

The Ninth Circuit explained their reasoning in ***BMG Music*** as an inability to extend U.S. copyright law abroad. But then along came ***Drug Emporium,*** and they began to fret that they were granting greater copyright protection to foreign-made copies than domestic ones. So they decided **First Sale** would apply to foreign-made copies if the first sale was in the U.S. And they hung with this in ***Denbicare***.

Under these holdings, **Costco** would lose because the first sale was in Europe.

But Then Came Quality King

A U.S.-copyrighted product was manufactured in the U.S., exported abroad, and sold through authorized dealers, shipped back to the U.S. without the copyright owner's permission, and resold through unauthorized dealers.

As a typical ivory tower naif, the ingenuity of commerce never ceases to amaze me.

The Supreme Court held that first sale applied to that but was clear that they were only addressing U.S.-made products. And **Omega** watches were made in Switzerland.

The Ninth Circuit noted the presumption against extraterritoriality means a U.S. statute only applies to activity within the U.S., unless the statute clearly shows something to the contrary. ***EEOC v. Arabian Am. Oil Co.,*** 499 U.S. 244, 248 (1991).

Library Impact

An appeal to the **U.S. Supreme Court** resulted in a 4-4 split with **Kagan** recusing herself. So the Ninth Circuit was upheld by default and we don't even know how the justices split.

And that got the library world all a-buzz. **Jonathan Band,** attorney for the **Library Copyright Alliance** issued a press release on Jan. 31, 2011: "The Impact of the Supreme Court's Decision in ***Costco v. Omega*** on Libraries," *http://www.arl.org/bm~doc/lcacostco013111.pdf.*

He does a thorough discussion of the ***Drug Emporium*** exception — i.e., foreign manufactured, but authorized first sale in the U.S.

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He and others are concerned that much library material is purchased from Europe and lots of books are printed in China. So here's my take on it.

1) China is not a concern. U.S. and European publishers are getting their printing done in China. That doesn't mean the books and journals are sold in China. They are printed and stitched together there. The authorized first sale is somewhere else.

This is the same confusion our Commerce Department is falling into with the component parts of **iPads** manufactured in the U.S., shipped to China for assembly by ill-paid drudges, and then brought back to the U.S. for sale. Commerce counts it as a sale by China and adds it to our dreadful trade imbalance.

2) Parties can agree on the place of sale, and if you look at some of your standard form contracts you will note that the place of contracting has been selected. All any library need do is print a standard form purchase invoice with a condition that the seller agrees the sale is in the U.S. You're not trying to evade some sales tax that might get those menacing revenue agents stirred up.

3) Why does the library world always assume publishers are slavering to levy an extra tariff? The price is already calibrated to what the market can barely bear and crawls up annually at a rate designed to not give you total catatonic sticker-shock. It is truly inconceivable that European publishers would leap to lay more costs on already near-bankrupt university and public libraries. Taken to the extreme, the publishers would be preventing library circulation and eliminate the sole reason libraries are buying the stuff.

4) And if push utterly came to shove, the U.S. Congress which manages to pass doorstop bills on a too-regular basis could maybe manage to amend the ***Copyright Act***.

Questions & Answers — Copyright Column

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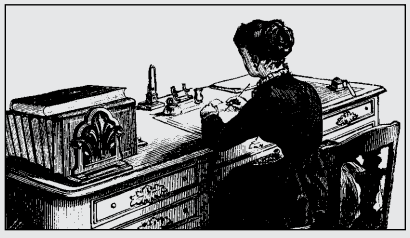
QUESTION: A university librarian asks why there is a debate over whether fair use is a defense or a right and whether it makes any difference.

ANSWER: This is one of the central debates in copyright law and there is not an absolute answer. (Sort of like "what is the meaning of life?"). In law, a defense is something that may be raised by a defendant to defeat the claim made by the plaintiff in a lawsuit. In section 107 of the ***Copyright Act***, in order to determine whether the use is a fair use, courts are directed to evaluate a particular use in relation to four factors. This makes it clear that fair use is a defense to copyright infringement because a court is involved only in the context of litigation. So, fair use certainly is a defense to a claim of copyright infringement, but it is also more. Often fair use is defined as an affirmative defense which means a new fact or set of facts that operates to defeat a claim even if the facts alleged by the plaintiff in the claim are true. In other words, the defendant did make the copies of a protected work, but the purpose of the use, amount of the work copied, etc., are such that a court would find that the use is a fair use, and this defeats the infringement claim.

But is fair use also a right? There is a significant difference between a right and defense. A defense is raised only in the context of litigation — in other words, someone has been sued for copyright infringement and then raises the defense of fair use. By contrast, a legal right is a power, privilege, demand, or claim possessed by a person by virtue of law. So, a right exists under the rules of a legal system, such as the law of a country. Sometimes fair use is defined as a privilege rather than a right, but this simply presents a circular argument since **Black's** *Law Dictionary* defines a right as a privilege and a privilege as a right.



Individuals who argue that fair use is a right are those who want expanded ability to use copyrighted works without permission of the copyright owner. Copyright holders, however, want to restrict fair use to a defense only. The difficulty in the copyright law is that the statute actually uses the term "right of fair use" in the library provision, section 108(f)(4). It is difficult to know if this was intentional on the part of **Congress** or was inadvertent, but it certainly has furthered the debate on this issue. This contrasts with section 107's direction to courts and serves to enhance the confusion.

Does the difference between a defense and a right make a difference? Perhaps or perhaps not, but the problem is this. If fair use is a right, then one gets to assert fair use as a matter of law so that an infringement claim would not even be filed. Maybe the answer is that fair use falls somewhere in the middle between a defense and a right. To some extent, this is the essence of an affirmative defense. The debate over whether fair use is a right or a defense is likely to continue, and unless the **U.S. Supreme Court** or **Congress** speaks definitively on the matter, no clear answer is possible.

QUESTION: A college librarian asks about the possibility of placing on reserve items which the library does not own but instead obtains through interlibrary loan.

ANSWER: The **ALA** Model Policy on Interlibrary Loan states that "in general the library should own a copy of the item placed on reserve." This means that the majority of the works in a library's reserve collection should be owned by the institution, but occasionally a copy placed on reserve might be the property of the faculty member, or it could be obtained from another institution through interlibrary loan complying with the CONTU interlibrary loan guidelines. Both faculty-owned and ILL copies should be exception rather than the rule.

QUESTION: A few years ago, there was much in the press about orphan works, and it was expected that the copyright law would be amended to deal with orphan works as do the laws of several foreign countries. What has happened to orphan works legislation?

ANSWER: As the term copyright has become progressively longer, a large number of works published in earlier years but still under copyright are increasingly unavailable for use because no one can locate the author or publisher in order to seek permission. Thus, these works most often are not used because no one is willing to risk an infringement action. In 2005, the **Register of Copyrights** initiated a study of the problem caused by these orphan works and reported to **Congress** in January 2006 calling for legislation to amend the copyright law to provide protection for anyone who uses an orphan work. In order to take advantage of the provision, a user would have to conduct a reasonable search to locate the copyright owner. After such a search, the user then would not be responsible for any damages for that use should the copyright owner later come forward. However, the user would be responsible for damages for use after that time and would have to negotiate future royalties with the owner in order to continue using the work.

It appeared that the legislation would move swiftly through **Congress**, but it met a roadblock when media photographers raised strong objections. The proposed amendment has languished since that point. An easy solution to the roadblock might be to permit the legislation to go forward but exempt photographs from its provisions. To my knowledge, this has not been proposed, however.

During the **Google Books** settlement talks, however, interest in orphan works has again surfaced. In the proposed **Google Books Settlement**, there were some proposals that

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